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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 14, 1975

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MEMORANDUM

SUBJECT: Iran's Arab World Initiatives and their Implications

On October 27, 1967--26 years after his accession to the throne--Mohammed Reza Pahlavi crowned himself Shah of Iran. That event symbolized the Iranian monarch's transition from an inexperienced figurehead placed on a shaky throne by foreign powers to a leader increasingly confident of his right to rule. Domestic political stability had been attained, Iran's independence from foreign powers had been asserted, and the country's growing military strength gave it the ability to protect its territory from all but its most powerful neighbor, the Soviet Union.

The Shah's gamble--some would argue that it was essential to forestall revolution--in placing the government on the side of social and economic reforms with the launching of the "White Revolution" in 1963 had paid off by 1967. The "White Revolution" was a domestic political success, if not yet an economic one. The religious reactionaries on the right and the Iranian leftists, both of whom had opposed the Shah's program, had been crushed, and the issue of social reform had for the moment been denied to dissidents.

From this domestic powerbase, the Shah embarked in the early 1970s upon a more activist foreign policy designed to extend Iran's influence in regional and world councils. Two events lent momentum to this outward thrust. The UK gave up its peacekeeping role in the Persian Gulf in late 1971 and the sharp rise in oil prices in 1973-74 increased Iran's foreign reserves from \$1.3 billion to \$6.3 billion. Monetary reserves stood at \$7.6 billion at the end of 1974.

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The termination of the UK's Gulf role sharpened Tehran's traditional concern over the security situation in the Persian Gulf. The sharp rise in oil prices gave Iran the ability simultaneously to sustain its developmental programs, to build the most powerful armed force in the region, and to use its economic leverage abroad to enhance political and strategic objectives.

The flow of visitors to and from Tehran since the October 1973 war has been heavy. In the first six months of 1974 some thirty countries--including many from Western Europe--sent high-level delegations seeking aid and trade agreements, and in many cases offering "political IOUs" in exchange. Since August 1974 the Shah has visited the Soviet Union, France, Southeast Asia, Australia, New Zealand, Jordan, and Egypt. Trips to Pakistan and Latin America are planned for later this year.

Major Iranian foreign policy initiatives included strengthening ties with India, Afghanistan, and the most important Arab states, and increasing Tehran's influence in Africa through economic deals. Iran proposed in the UN that the Middle East be declared a nuclear weapons-free zone; the Shah advocated a "zone of peace" for the Indian Ocean, and advanced general plans for a common market and closer security cooperation among its littoral states.

Iranian financial commitments to some 17 countries during 1974 totaled over \$6 billion. They included individual offers of \$1 billion or more to India, France, and the United Kingdom; over one half billion to Pakistan, and an aid package worth nearly \$1 billion to Egypt. The Shah also proposed the establishment of a development fund for LDCs, and promised large loans to the IMF and IBRD to cushion the effects of higher oil prices on the LDCs.

Military equipment purchases totaling more than \$7 billion during 1973-74--it will go up to \$9.3 billion next year--reflect the Shah's determination to ensure Iran's preeminent military position in the Persian Gulf region. Virtually all new weapons ordered will enter the inventory by 1978. New additions include nearly 800 chieftain tanks and 250 Scorpion light tanks from the UK, the British-made Rapier and the US Hawk air defense missile

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[REDACTED]

systems, 280 F-4E and F-5E jet fighters and 80 F-14 jet fighters from the US, and several new ships for Iran's navy.

Iran has shown itself willing to commit its military forces in the Persian Gulf region [REDACTED]

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[REDACTED] On the eve of the British withdrawal in late 1971, Iran occupied three small islands near the Strait of Hormuz, climaxing more than a decade of unsuccessful negotiations over their ownership.

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[REDACTED] Iranian forces have helped the Sultan of Oman to suppress a leftist rebellion [REDACTED]

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Although the Shah has often indicated his preference for collaboration among Gulf states on security matters, the examples of the islands and Iraq show clearly his willingness to act alone and against Arab governments when he feels Iranian interests are directly involved. Aid to Oman shows his willingness to aid Gulf sheikdoms threatened by leftists.

The View From Iran

Iran's arms buildup, the Shah's diplomatic forays, and his numerous pledges to transform Iran into a world power, have raised questions about his objectives and ambitions, and their impact on regional stability. Do Iranian ambitions exacerbate to a dangerous degree historical Arab-Persian tensions? Can Anwar Sadat's vision of the "Arab nation" coexist with the Shah's vision of the "Great Civilization?" Does the Shah have a "grand design?"

It appears to us that the Shah's foreign policy objectives are to:

-- undercut radical influence in the underdeveloped countries of the region and increase Iran's influence with the LDCs.

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-- assure a viable economic future for Iran after the country's oil resources are depleted. (Current reserves are estimated at 60 billion barrels; at current production rates, reserves will begin to dwindle rapidly in the early 1990s.)

-- assure a dominant political and military role for Iran in the Persian Gulf and eventually an effective influence in Indian Ocean affairs.


-- isolate Iraq, thwart the spread of radical influences in the Persian Gulf, and combat what the Shah sees as the continuing threat to Iran through encirclement and subversion of Gulf and subcontinent states.

At the moment, the most crucial of these is to thwart subversion and prevent the emergence of radical governments in the Gulf and, as a corollary, to prevent further Soviet penetration of the Middle East. This objective is the force behind the Shah's diplomatic effort to create a rapprochement with the moderate Arab states.

The Shah's outlook and goals about the Middle East are a blend of attitudes common to most Iranians, as well as events of his lifetime. The Shah is heir to a traditional Persian sense of isolation in a largely hostile world. Surrounded by peoples of different origins and cultures, the Persians believe they have no natural allies. To some extent, this perception explains the Shah's emphasis on arms and security.

The direct role of foreigners in putting the Shah on the throne and in saving his position in 1953, the bitter Arab propaganda attacks on Iran during the Nasir era, and the Soviet designs on Iranian territory following World War II have all acted to reinforce in the Shah that sense of Persian isolation and insecurity. These events have also strengthened his determination to free Iran from all manner of foreign domination and dependence.

The Shah also has the notion--Faysal feels the same way about Saudi Arabia--that Iran is threatened with encirclement.



The hostility of the Iraqis, Baghdad's support for the Dhofar rebellion and for tribal unrest on Iran's border with Pakistan, is linked by the Shah to the Soviet friendship treaties with Iraq and India, the dismemberment of Pakistan through the secession of Bangladesh, and the overthrow of the monarchy in Afghanistan to present a picture of Iran beset from all sides by revolution and chaos. Although distant from Iran's borders, the ouster of Emperor Haile Selassie, new speculations about the survivability of his fellow monarchs Husayn of Jordan and Hassan of Morocco, and the prospect of a Fatah-led Palestinian state, have all reinforced the Shah's view of regional instability and the need for him to counter these developments.

The Arabs

It is the vulnerability of the Arab Gulf states to subversion that the Shah sees as the most dangerous challenge to Iran's well-being. Above all, and at any cost, the Shah intends to safeguard the transit of his oil--upon which his plans to make Iran a major power depend.. The Shah subscribes to the notion that a power vacuum on the Arab shore was caused by the UK withdrawal in 1971 and that it poses a danger to him. Iran, he believes, has the right to take action there, if necessary, as a last resort.

Before that, however, the Shah is committed to political and military efforts to enhance the stability of select Arab governments and to making overtures for closer relations with the more moderate Arab regimes, not only on the Arabian Peninsula, but extending to Egypt, Jordan, and even Syria.

At the same time, there is a recognition in the Arab world of Iran's growing importance in the Middle East, because of its economic and military power, its willingness to use that power, and its key role in the Organization of Petroleum Exporting Countries.

Saudi Arabia and the Gulf: It is a cardinal principal of the Shah's foreign policy that security of the Persian Gulf should be left to the littoral states. Nevertheless, he recognizes their inability to deny influence to the major powers.



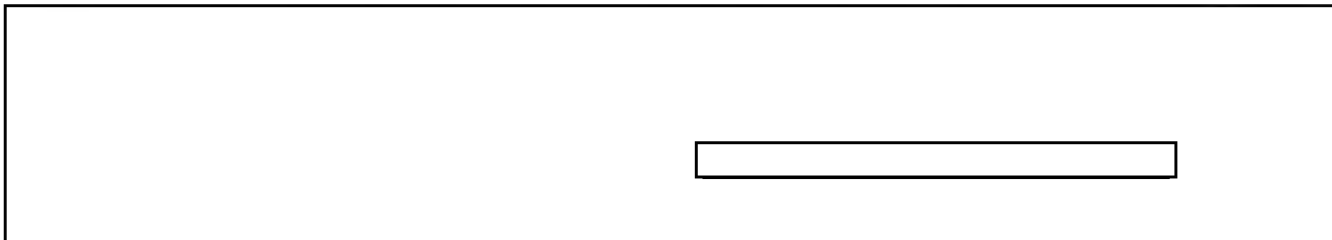
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A US naval presence [redacted] is, therefore, seen by the Shah as an appropriate counter to Soviet influence. It will be welcome to the Shah at least during the eight to ten years he estimates it will take to build up the Iranian navy.

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The Shah naturally expects that Iran will lead any grouping of littoral states. Nevertheless, his goal is a cooperative arrangement. He tried several years ago--unsuccessfully--to interest Saudi Arabia and the small Gulf states in formal security arrangements. The initiatives failed because of traditional Arab distrust of Iranian motives, and clashes on specific issues such as Iran's occupation of the Gulf islands in 1971.

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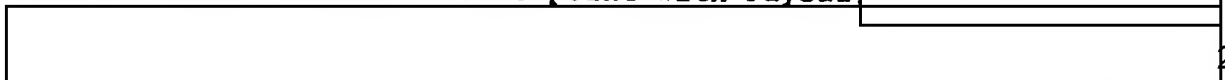


Saudi Arabia and Iran share a fundamental identity of interests on regional matters. Both are politically conservative and wish to limit Soviet influence in the Middle East, eliminate or moderate existing radical regimes, and prevent the further spread of radicalism. Both have an interest in maintaining high oil prices, although Saudi Arabia--with greater oil reserves and a lesser ability to absorb the revenues--can afford to be more flexible on prices. The two countries agree that cooperation in achieving their political aims is desirable.

Nevertheless, King Faysal and most Saudis retain an underlying suspicion of Tehran, particularly with respect to anything smacking of Iranian expansion to the Arabian peninsula. The islands issue remains a sore point with Faysal [redacted]

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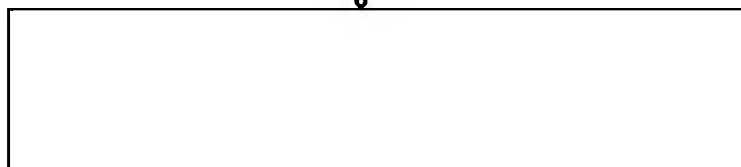


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Some of Faysal's antipathy may be based on religious differences.



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Faysal, moreover, recognizes he would be a junior partner in any formal alliance. Iran's population edge--32 million to 5 million--and its already strong military machine give something of an unreal quality to speculation about Iranian-Saudi competition for dominance in the area. Iran already is the dominant power and will remain so.

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Egypt: Cairo is the key to Iran's policy toward the Arab world. Tehran views Sadat as a strong and moderate leader who shares Iran's desire to restrict the influence of radical Arabs and the Soviet Union in the Middle East. The Shah believes Sadat is in a position to moderate existing radical Arab governments and to facilitate Iran's efforts to draw Saudi Arabia into a more cooperative relationship. The Iranian leader, therefore, has sought to demonstrate his support for Sadat's leadership and for his approach to regional problems.

The Shah believes that Sadat's domestic position depends on maintaining the momentum toward a peaceful settlement in the Middle East. Renewed war in the Shah's eyes would aid only Arab radicals and would facilitate Soviet penetration and subversion in the area. This, in turn, is seen as a threat to Iran's security.

Iran had made several moves to improve relations with Egypt before the October war. After the war, the Shah sent his minister of economy to Cairo to see if Iranian economic help would help along the rapprochement process. Egypt's deputy

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prime minister was invited to Tehran in May 1974, and an aid arrangement was signed amounting to \$850 million for Cairo.

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[REDACTED] A high-level Iranian military delegation visited Egypt that same month, touching off speculation that Iran would provide arms aid. Iranian officials denied this was in the works.

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The latest event in the courtship was the Shah's visit to Cairo on January 8-12. The visit went well and the joint communique contained political pluses for both sides. The Shah reiterated his support for an Israeli pullback, and Sadat supported Iran's defense of its oil pricing policy. Both pledged to work for stronger ties between Iran and the Arab world.

The Shah hopes his political and economic investment in Egypt will reinforce the split between Egypt and the Soviets, and Egypt and Libya.

Egypt's interest in improved relations with Iran is largely economic, but President Sadat also feels a political affinity for the Shah. Iran's wealth is a powerful attraction and the Shah's experience with the White Revolution provides a model for Egypt's own development. Outside the economic sphere, the two leaders' similar interest in exerting a moderating influence in the Middle East and ensuring its independence from the controlling influence of outside powers provides a starting point for political cooperation.

Sadat is probably somewhat suspicious of the Shah's designs on the Arab side of the Persian Gulf, but he undoubtedly also feels that their common interest in eliminating radical influences there makes cooperation advantageous in terms both of the security and stability of the area and of Egypt's long-term economic advancement. Sadat admires the Shah as a pragmatic leader who has been able successfully to balance his relations with the US and the USSR--as Sadat is attempting to do--without sacrificing Iran's political independence. Sadat recognizes that the Shah

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[REDACTED]

plays a powerful role in Middle East affairs whether the Arabs like it or not and that, through cooperation rather than an effort to exclude him from the smaller area of the Arab Middle East, the Shah can contribute to the stability of the area.

The potential for an eventual clash between the Shah's ambitions and those of Sadat does exist, however. The Egyptians' sense of their Middle Eastern role can probably tolerate only a limited Iranian influence and leverage with other Arab governments. The limits of that tolerance obviously have not been reached, however.

Friendship with Iran, moreover, gives Sadat some added leverage where he badly needs it--in Saudi Arabia. [REDACTED]

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Iranian aid could not replace that from Saudi Arabia, but the Shah's help might make King Faysal more solicitous of his Egyptian partner. Faysal's last-minute addition of Cairo to his Middle Eastern itinerary--coming on the heels of the Shah's trip--was perhaps a measure of the King's concern.

Syria and Jordan: Iran has drawn closer to Syria, for reasons similar to those leading to its interest in Egypt, using economic aid as the inducement. A letter of intent was signed in May 1974 providing for low-interest credits amounting to \$150 million for Damascus. [REDACTED]

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The Shah has had consistently good relations with Jordan's King Husayn, to whom he has provided both economic and military assistance. A visit to Amman this month further solidified ties in all fields, including hints of closer military cooperation. Recent Iranian military assistance included the delivery of 11 F-5 jet fighters, with an equal number to be delivered in 1975. [REDACTED]

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Implications

We believe that for the near term the dominant impulse among the governments of Iran, Saudi Arabia, Egypt, and Jordan

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is for expanded cooperation. Such cooperation is based on the common objectives of limiting Soviet influence in the Middle East and reducing the danger of radical takeovers of governments in the area. Added to this is the common interest of Iran and Saudi Arabia to ensure the unobstructed flow of oil through the Persian Gulf. Actions based on these common interests, we believe, will have a positive impact on political stability [REDACTED]

[REDACTED]

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Certainly the coincidence of goals among these countries does not extend to all subjects; rational interests and motivations vary, and there is the potential that ultimately ambitions could clash. Any resurgence of Egyptian adventurism on the Arabian peninsula, for example, would alarm Iran and Saudi Arabia. Continued unwillingness of Saudi Arabia to shoulder what the Shah regards as the Saudis' share of the burden in combating the spread of radicalism would strengthen the Shah's determination to go it alone.

The substance of Iran's policy on the Arab-Israeli issue has not changed significantly since the 1967 war. Iran condemns Israeli occupation of Arab territory and calls for a return to the boundaries existing before the 1967 conflict. Tehran supports UN resolution 242, and does not accept the change in the status of Jerusalem. These views were repeated during the Shah's recent visit to Cairo.

Iran's overtures to the Arabs, however, have not surprisingly included a sharpening of its statements of political

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support for their position. The sharpening is characterized by the Shah's remark to an Arab newspaper, that in the event of a new war, Iranian sentiments would be with the Arabs. These developments have raised concern in Tel Aviv.

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As Iran's ties with the Arabs deepen, its Israeli connections will probably become an increasing liability.

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The Shah would like to retain those ties, yet avoid Arab political pressure. To accomplish this he may try to project Iran into the role of peacemaker--a bridge between Arab and Israeli. He might argue with Arab leaders that Iran's provision of badly needed oil to Israel gives him leverage in Tel Aviv which could benefit the Arab side. He may also encourage Arab leaders such as Sadat to believe that the Shah's close relationship with the US will increase the weight of the Arab case in Washington.

In the future it is conceivable then that the Shah could become a source of pressure on Tel Aviv to make concessions, and on Washington to press for such concessions.

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Certainly the Shah sees a peace settlement as being in Iran's interest, as is illustrated by his emphasis while in Cairo and Amman on the need for quick action to regain momentum toward a peaceful settlement. War, he believes, would undermine the position of moderate leaders and result in Soviet gains in the Middle East.

Selling the mediating role to Arab leaders depends in part on convincing them that he does not act in Middle East affairs

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at the behest of the US. The Shah probably sees little advantage in identification with US Middle East policy. Recent events at the UN and at the Rabat Summit Conference have probably strengthened a view held by some high Iranian officials--and possibly by the Shah--that the US is isolated on the question of Israel, and that Jordan has suffered political reversals, in part, because of its close identification with the US..

The Shah's interest and determination to keep the price of oil up is strong. He will continue to identify Iranian national interests with a high oil price. It is difficult to foresee circumstances under which he would agree to lower prices.

At the same time, Iran probably would not agree to participate in any oil embargo arising out of a new Arab-Israeli war, despite Arab pressures. The Shah has repeatedly said Iran would not cut off oil exports for political reasons; Iran did not join the 1973 embargo.

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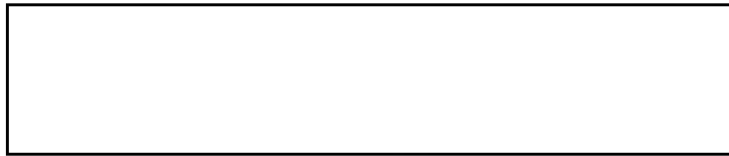
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From the US perspective, the most immediate conflict with Iranian ambitions could come not in the Middle East, but in Western Europe, where an important diplomatic struggle is currently being played out among the US, European Community member states, and Iran. The issue is far from the serious stage, but both the US and Iran have shown a willingness to invest considerable political capital. The subject of the struggle is the shape of Iran's relationship with the EC. The outcome will provide a measure of the extent to which political power--not just wealth--has been transferred to Iran as a result of the increase in oil prices. It also might serve as a precedent for other oil producers.

Special treatment by the EC is a prestige goal of the Shah. He is evidently willing to push the issue despite the strong objections of the US. The US has made repeated demarches to its European allies, expressing the view that preferential treatment for Iran is not in the interest of the oil consuming nations,

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would violate GATT regulations, could not be justified by existing EC tariff practices, and violates earlier promises to the US by EC officials.

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